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SUBJECT: WORLD BANK PRESIDENT'S VISIT HIGHLIGHTS POSITIVE  
DEVELOPMENTS, NEED FOR POLITICAL HARMONY

SENSITIVE BUT UNCLASSIFIED-- PROTECT ACCORDINGLY

1.(SBU) SUMMARY: World Bank Country Director for Ethiopia reported to the Ambassadors Donors Group (ADG) that World Bank President Paul Wolfowitz's July 11-12 visit to Ethiopia had resulted in Wolfowitz's full support for the new Protection of Basic Services (PBS) program and a positive, though cautious, view of recent economic and political developments. The visit included stops in both Addis Ababa and the Amhara Region, where he met with representatives from government, the donor community, the private sector, and civil society. Annual World Bank support for Ethiopia now totals \$500 million, with the potential for significant scaling-up if the Government of Ethiopia (GOE) fulfills its commitments on increased transparency, accountability, and good governance. Key to these commitments is what Wolfowitz described as the need for "political harmony." In briefings with the press, Wolfowitz was generally positive about prospects for Ethiopia's development, emphasizing the need for sustained growth and political harmony to truly transform Ethiopia. Wolfowitz's meeting with Prime Minister Meles was described as "comforting," with the Prime Minister supportive of the PBS program and committed to political reconciliation.

Recent positive developments, both economic and political, are seen by the World Bank as creating a number of openings in key areas such as infrastructure development and the strengthening of basic services. World Bank and GOE relations according to Wolfowitz are "normalized on a new basis." END SUMMARY.

WOLFOWITZ VISIT "A-CLASS"

2. (SBU) During a briefing to the Ambassadors Donors Group on July 13, World Bank Country Director for Ethiopia and Sudan Ishac Diwan, described Wolfowitz's recent July 11-12 trip to Ethiopia as an important visit that resulted in a more complete understanding, buy-in, and ownership by Wolfowitz of the new Protection of Basic Services (PBS) program. During the two day-visit, Wolfowitz met in Addis Ababa with Prime Minister Meles and key members of the cabinet, members of parliament, donors, civil society, and the private sector. Wolfowitz also traveled to the Amhara Region, where he was able to talk first-hand with members of civil society and review basic services, such as education. Diwan stated that the trip also provided an opportunity for Wolfowitz to gain a better understanding of the role of the Diaspora, including how to manage the Diaspora in the United States. The attitude of the private sector was described as radically improved over just two years ago: today they are more positive, citing improved dialogue with the government. What

remains needed for business development, however, is to create a culture of innovation and competition. For donors, the PBS concept has now been internalized, Diwan said.

13. (SBU) During a 90-minute meeting with Wolfowitz, Prime Minister Meles outlined his vision for the country: private sector development based on small and medium-sized business (SMEs) and the export sector, and greater transparency and space for civil society at the local level. According to Diwan, Meles also acknowledged a change of heart about the private sector, whereby he now understood that profits should be considered a positive result of business. Though Meles and Wolfowitz did not directly discuss the Eritrean-Ethiopian border, Meles reiterated his oft-used phrase that poverty, not war, was Ethiopia's real enemy. Wolfowitz was described as being "comforted" by Meles' presentation on the country's direction, as well as Meles' shared commitment to political harmony and support for the PBS program. Wolfowitz acknowledged that now is an opportune time to consolidate programs, and keep a focus on governance and transparency.

#### BASIC SERVICES THE FOUNDATION, POLITICAL HARMONY THE KEY

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14. (SBU) Wolfowitz's vision for transforming Ethiopia was described as ten years of growth and stability. For Wolfowitz, basic services are the foundation of the pyramid and therefore must be preserved. World Bank-GOE relations were described as "normalized on a new basis." Key to continued World Bank support will be GOE action on various commitments in the areas of political harmony, governance, accountability, and transparency. While the World Bank has committed to providing \$500 million over the next year, including \$215 for PBS, progress in key areas such as political reconciliation, transparency, and accountability

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could result in significantly scaled-up funding. The trial of detained CUD leaders and members of civil society is another area that the World Bank will be watching in terms of future assistance levels. Diwan reported that the Prime Minister had told Wolfowitz that progress on the political process could lead to greater leniency for the detainees.

#### BUILDING ON THE MOMENTUM

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15. (SBU) Diwan described a number of areas where donor assistance could build on recent political and economic momentum and openings. These include: enhancing basic services, strengthening the GOE's Productive Safety-Net Program (PSNP), creating a culture of innovation and competition within the private sector, consolidating the Nile Basin Initiative, strengthening regional governments, and building key infrastructure such as secondary roads and dams.

On basic services, Diwan said it will be key for the GOE to deliver on its promise of increased transparency and accountability, and, particularly, allow an increased role for civil society. Donors present at the briefing stressed that there needed to be a broad definition of civil society that included local civil society organizations (CSOs), non-governmental organizations (NGOs), and rural associations, as well as improved dialogue between the GOE and CSOs. There currently is some confusion among donors about a GOE proposal that seemed to place greater emphasis on rural associations, which are often party-affiliated, and only later engage CSOs and NGOs. For the PSNP, the focus will be on strengthening the program so that beneficiaries eventually "graduate," as well as ensuring that the program will not be used as a political tool. (COMMENT. Following the May 2005 elections, there was evidence that some beneficiaries had been removed from the program for political reasons. END COMMENT.) To support greater transparency in the PSNP, for example, there will be the introduction of public dissemination of the names of beneficiaries, with a particular emphasis on ensuring disclosure to civil society

and parliamentary members.

¶6. (SBU) Even larger openings are seen by the World Bank in building key infrastructure, including secondary roads to develop market linkages for rural populations, and developing hydro-electric potential, increased irrigation, and private sector development. Diwan noted that there had been process on information technology (IT) policy reform, though at a slower pace than donors would like. He also noted that Minister of Trade and Industry Girma Birru had expressed support for the creation of an equity market, though not in the banking sector.

MACROECONOMIC STABILITY, ECONOMIC REFORM,  
AND IMF ENGAGEMENT  
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¶7. (SBU) While the objective of Wolfowitz's visit was not focused on recent economic developments or reforms, these issues were discussed with both the government and private sector. On telecommunications, a sector where donors have pushed for greater liberalization, Meles acknowledged that the GOE and donors do not agree on how best to develop the sector, but that it was acceptable to agree to disagree. Ethiopia's banking sector was described by the World Bank as moving in the right direction, with the GOE's strategy of gradual liberalization (as opposed to, for example, opening the sector to full foreign investment) as an appropriate approach. There also appeared to be an opening for International Finance Corporation (IFC) engagement, for example, with IFC potentially providing partial guarantees to local banks. Ethiopia's macroeconomic fragility was acknowledged, noting that there were certain red-lines that should not be crossed. (COMMENT: One such red-line, relating to levels of foreign reserves, may have already been crossed with reserves dipping below 3 months export coverage. END COMMENT.) Another concern on the macroeconomic side is rising inflation, which hit 5 per cent for June. Though analytical reports tend to be contradictory, there is concern about rising petty corruption. The IMF Resident Representative told the ADG that the IMF is trying to engage the GOE outside of a formal program. Specifically, it appears that the GOE may be open to the IMF conducting macroeconomic assessments, although formal GOE agreement for such work would still be needed. It was noted that Wolfowitz will be speaking with the IMF Managing Director about a Preparation Strategy Report (PSR).

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¶8. (SBU) COMMENT. The World Bank Country Director made clear that Wolfowitz's positive views and public comments did not imply that challenges, both economic and political, do not exist. Rather, the visit was seen as highly successful in that Wolfowitz has a fuller understanding and appreciation of the PBS program and the environment in which it will be implemented. For the World Bank, the PBS program represents an opportunity to build on recent positive momentum in the political and economic spheres in terms of increasing accountability, transparency, and good governance. Enhancing civil society's role in the development process will be a critical aspect of the program's success, and a leading challenge. The fact that the Ministers of Capacity Building, Finance/Economic Development, and Agricultural/Rural Development plan to visit various woredas (districts) during August and September to advocate and educate local administrators about PBS is an indication that, at the policy level, the GOE has also bought-in to the PBS concept. END COMMENT.  
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